

Guidance for completing 2007 Proposed Budget

Why do we need to do a budget?

- **To plan for routine operating expenses**
 - **Must be realistic and reasonable- sufficient to maintain the project**
 - **Must be consistent with past budgets and comparable projects**
- **To plan for capital improvements**
 - **Address items on annual capital budget**
 - **Address items identified in past inspections**
 - **Address physical accessibility needs**
- **To determine if a rent change or change in utility allowance is necessary**
- **Budgets are required by regulations**

When is budget due?

- **Current 3560 regulations –**
 - Budgets without rent changes – 60 calendar days prior to end of fiscal year. (November 1 for projects with a fiscal year that ends December 31) Agency has 30 days total to review the complete budget
 - Budgets with rent changes – 90 calendar days prior to end of fiscal year. Tenant Notice must be posted at same time. (October 1 for projects with a fiscal year that ends December 31) Agency has 60 days total to review the complete budget.
 - Budget package should be mailed to the borrowers at the beginning of the 9th month of the fiscal year. (September 1 for December 31 year ends)

Proposed Budget

- Budget should be planned using:
 - ❖ Historical figures for the project & comparable projects
 - ❖ Reasonableness review according to HB2, Exhibit 4-4
 - ❖ Known changes in operating expenses
 - Insurance
 - Taxes
 - Utilities,
 - Etc.
 - ❖ Projected Rent change (if necessary)
 - ❖ Projected Utility Allowance change (if necessary)
 - ❖ Planned Capital Improvements

Proposed Budget

❖ Budgets must be realistic.

- Actual income and expenses are expected to be within +/- of 10% of planned budget. (Based on MFIS budget norms and budget analysis)
- Be sure necessary annual capital improvements are included and be identified on Part V, Annual Capital Budget. Capital expenditures, including normal unit turnover costs (i.e. painting, replacement of carpet, appliances, etc.) may be paid from GOA when funds are available. In most cases, the reserve account should be used as the primary source for major capital expenses.

Reviewing Rent Changes

- If a review of the rent change shows that the rent change will adversely affect the marketability of units, the full rent change cannot be approved.
- The borrower should seek a reduced rent change and, if appropriate, request a servicing action that will enable the project to achieve a positive cash flow at lower rents.

Completing the Proposed Budget

- Column 1 “CURRENT BUDGET” is completed with the most recent approved budget for the current operating year.
- Column 3 “PROPOSED BUDGET” is completed for the next operating year.
- Column 2 does not need to be completed for the Proposed Budget.

SUGGESTION - BEGIN ON PART II, PAGE 2

| PART II—OPERATING AND MAINTENANCE EXPENSE SCHEDULE | | | |
|--|--------|--------------------|----------------------|
| CURRENT BUDGET | ACTUAL | PROPOSED BUDGET | COMMENTS or (YTD) |

- Part II, Page 2 identifies all of the routine operating expenses normally occurring on a yearly basis.
- The borrower needs to know how much they are going to spend before they can determine how much rent to charge. 😊
- Refer to the instructions attached to the form (Page 11) for a detailed description of what expenses are included on each line item. These instructions are an excellent tool to use to determine what should be entered on each line.

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|--------------------------------------|--------------------------|--|--|--|
| 12. ELECTRICITY | <i>If master metered</i> | | | |
| 13. WATER | <i>check box on</i> | | | |
| 14. SEWER | <i>front.</i> | | | |
| 15. FUEL (Oil/Coal/Gas) | | | | |
| 16. GARBAGE & TRASH REMOVAL | | | | |
| 17. OTHER UTILITIES | | | | |
| 18. SUB-TOTAL UTILITIES (12 thru 17) | | | | |

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|-----------------------------|--|--|--|
| 19. SITE MANAGEMENT PAYROLL | | | |
| 20. MANAGEMENT FEE | | | |

Rent Change

B. PROPOSED CHANGE TO RENTS

| UNIT DESCRIPTION | | | RENTAL RATES | | | POTENTIAL INCOME FROM EACH RATE | | |
|----------------------|-----------|--------|--------------|-----------|-----|---------------------------------|-----------|-----|
| BR. SIZE | UNIT TYPE | NUMBER | BASIC | NOTE RATE | HUD | BASIC | NOTE RATE | HUD |
| | 1 | 8 | 360 | 460 | | 34560 | 44160 | |
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| CURRENT RENT TOTALS: | | | | | | 34560 | 44160 | |
| | | | | | | BASIC | NOTE | HUD |

- Fill in the Proposed Change to Rents on Page 4, Part B.
- This should be figured on a square footage basis.

Rent Change

B. PROPOSED CHANGE TO RENTS

| UNIT DESCRIPTION | | | RENTAL RATES | | | POTENTIAL INCOME FROM EACH RATE | | |
|----------------------|-----------|--------|--------------|-----------|-----|---------------------------------|-----------|-----|
| BR SIZE | UNIT TYPE | NUMBER | BASIC | NOTE RATE | HUD | BASIC | NOTE RATE | HUD |
| | 1 | 8 | 355 | | | 34560 | | |
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| CURRENT RENT TOTALS: | | | | | | 34560 | | |
| | | | | | | BASIC | NOTE | HUD |

- Carry over the basic rent to Part I, Line 1 on Page 1. This should be done by the system when entered in MFIS.